CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 19, 1998

H.R. 3116
Examination Parity and Year 2000 Readiness for Financial Institutions Act

As ordered reported by the House Committee on Banking and Financial Services on February 5, 1998

SUMMARY

H.R. 3116 would require the federal regulators of financial institutions to provide those institutions with model approaches for dealing with the year 2000 computer problem. Agencies would be required to take into account the need for different approaches for different institutions in developing guidance on year 2000 compliance. It also would give the Office of Thrift Supervision (OTS) and the National Credit Union Administration (NCUA) statutory parity with other federal banking regulators, including the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller, and the Board of Governors of the Federal Reserve, to examine entities that provide services to financial institutions. Finally, the bill would require the federal financial regulatory agencies to hold seminars for financial institutions on the implications of the year 2000 problems for safety and soundness practices.

CBO estimates that enacting this bill would have no significant impact on the federal budget and no pay-as-you-go implications. H.R. 3116 includes new private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA), but we estimate that the costs of complying with these mandates would not exceed the threshold set in UMRA ($100 million in 1996, adjusted annually for inflation) in any one year. The bill contains no intergovernmental mandates, as defined in UMRA, and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

Provisions requiring the banking regulators to provide model approaches and to hold seminars on the year 2000 problem are consistent with existing agency practices and thus would have no significant budgetary effect.

The expansion of the examination authority of the OTS and NCUA also would have no net budgetary impact. The OTS now requires savings associations to obtain a service provider's consent before the OTS can examine the vendor, and in some cases, the lack of this consent has resulted in delays in conducting the examination. According to the OTS, the statutory authority provided by H.R. 3116 would allow the agency to continue to perform the types of examinations it is now conducting, but it would no longer have to rely primarily on contract provisions negotiated by the institutions it regulates to conduct these examinations. Because the bill would provide clear authority to the OTS and would make the examination process more efficient, CBO expects that OTS could realize some minimal savings. Because savings institutions reimburse the OTS for all administrative costs, however, any savings would be offset by a reduction in fees, resulting in no net budgetary effect.

The bill also would extend through 2001 the authority of the NCUA to examine service contractors, including service organizations owned by credit unions. The legislation would allow the agency to review services that private-sector vendors provide but that are not currently subject to examination. It would also clarify the authority of the NCUA to oversee vendors currently complying with year 2000 reviews. As a result, CBO estimates that enacting H.R. 3116 would eliminate delays in obtaining consent from some service providers, thereby reducing costs. These savings would be offset by expanding the number of service providers the agency examines. Because the agency collects fees to offset its supervisory costs, the net effect would be zero in any case.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending and receipts. Legislation providing funding necessary to meet the deposit insurance commitment is excluded from these procedures. CBO believes that any costs incurred to implement H.R. 3116 would be related to maintaining the safety and soundness of financial institutions and thus would fall within this exemption. Therefore, the bill would have no pay-as-you-go implications.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

Sections 4 and 5 of H.R. 3116 would create new private-sector mandates, as defined by the Unfunded Mandates Reform Act, by granting authority to the OTS and the NCUA to examine operations of entities that perform services for financial institutions they regulate. The authority for the NCUA would be in effect through the year 2001. CBO estimates that the annual direct costs of complying with those mandates would not exceed the statutory threshold for private-sector mandates ($100 million in 1996, adjusted annually for inflation).

Section 5 would require that credit union organizations and service providers be subject to the same examinations as an insured credit union. Currently, the NCUA performs examinations of the credit union organizations through the insured credit unions. However, it does not perform any examinations on independent service providers (i.e., ones that are not affiliated with credit unions) that provide financial services to credit unions and credit union organizations. Furthermore, it does not have an accurate count of those service providers, although they have identified approximately 120 primary independent service providers. According to information from the NCUA, it would limit its examination of those providers to critical areas that relate to the year 2000 computer problem and would not impose any examination fee on the vendor. Based on published estimates of the cost of comprehensive examinations for financial institutions and on information provided by the FDIC, CBO estimates that the direct cost to the independent service providers to comply with the NCUA examinations would be well below the statutory threshold for private-sector mandates.

Section 4 would require that service corporations and subsidiaries owned by savings associations and contractors performing services for those financial institutions would be subject to the same examination as an insured depository institution. Currently, under federal regulation, the OTS already performs those examinations. Thus, this requirement would not impose additional costs on the private sector.

Section 4 and 5 would also require that any savings association, service corporation, subsidiary, holding company, affiliate, insured credit union, or credit union organization notify the appropriate regulatory agency of any independent contract for financial services. CBO estimates that the cost of such notification would be negligible.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 3116 contains no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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